

MARKETBEAT OFFICE SNAPSHOT

FREDERICKSBURG, VA

A Cushman & Wakefield Alliance Research Publication

Q1 2013



ECONOMIC OVERVIEW

2013 began as many hoped- with an improving economy and employment figures. The Virginia state-wide figure is 5.7%, and a 5.9% unemployment rate was reported in the Fredericksburg area as of January 2013.

Overall, Stafford County is faring the best with a 5.0% rate, followed by Spotsylvania at 5.3%.

Beyond unemployment figures, there are other indicators of economic growth. Area leaders met during the first quarter to discuss the local economy, and sited new investments in utilities, transportation, and housing developments as bright spots for the area. They also said that although the fast-growth seen a decade ago is not present, economic activity is improving.

FIRST QUARTER SUMMARY

The office market in Fredericksburg demonstrated that many tenants are trading spaces to take advantage of lower rental rates and gaining bigger and better space for less rent. While Q1 in Fredericksburg concluded with negative absorption, leasing activity is up more than double the Q1 2012 figure. Overall asking rent has also increased.

Some of the prominent deals from this quarter include 4,055 square feet (sf) leased to Tactical Engineering & Analysis Inc., 3,469 sf leased to Spencer, Mayoras, Koch, & Cornick, PLC at Centre Court, 1,579 sf leased to Obsidian Solutions Group at Mill Race Commons, 1,200 sf leased to AVSX Technologies at 12000 Kennedy Lane, and Caldwell Thompson Companies leased 1,171 sf at Central Park Corporate Center.

MEDICAL ACTIVITY CONTINUES

During 2012, the Fredericksburg office market saw the most success, both in sales and leasing and development, in the medical sector. This has continued into 2013. In Stafford, and more specifically the Garrisonville Road corridor, the medical growth is evident. At 446 - 456 Garrisonville Road, a 40,000 sf medical building is currently under construction and will house a number of medical practices upon completion. Additionally, MediCorp Properties purchased a 4,200 sf office building at 608 Garrisonville Road where Mary Washington Healthcare's Medical Center of Stafford is located.

Medical leases during this quarter include 3,850 sf leased to Family Counseling Center for Recovery at 11720 Main Street, 2,800 sf leased to a new dental practice at 5996 Plank Road, 957 sf leased to Dr. Ali Althahir at 231 Garrisonville Road, and 875 sf leased to Dawn & Mark Atkinson for a therapy office at 306 Garrisonville Road.

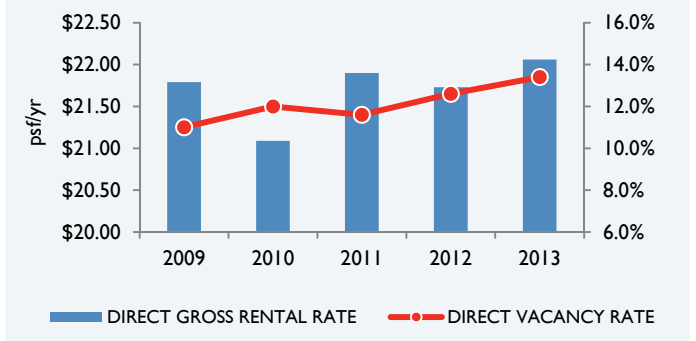
OUTLOOK

While the overall economy improves, it is apparent that the office market will be the last to benefit from the recovery. Companies over the past few years overall shrunk due to uncertainty, taking less and less office space. Tenants must fill the excess space for the Fredericksburg office market to move forward. This has started to happen over the past few quarters, and the number of deals per quarter is climbing. While there has not been a lot of "new" business thus far, the Fredericksburg area is expected to see more activity as the year goes on.

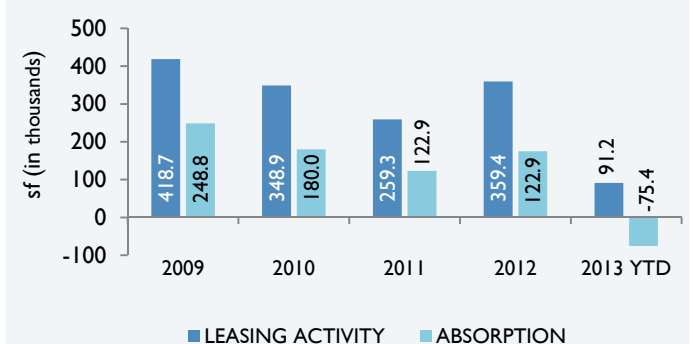
STATS ON THE GO

| | Q1 2012 | Q1 2013 | Y-O-Y CHANGE | 12 MONTH FORECAST |
|------------------------------|---------|---------|--------------|-------------------|
| Overall Vacancy | 12.1% | 13.7% | 1.6pp | ▼ |
| Direct Asking Rents (psf/yr) | \$21.81 | \$22.06 | 1.1% | ◄► |
| YTD Leasing Activity (sf) | 34,761 | 91,239 | 162.5% | ▲ |

DIRECT RENTAL VS. VACANCY RATES



LEASING ACTIVITY VS. ABSORPTION



FREDERICKSBURG, VA

| SUBMARKET | INVENTORY | OVERALL VACANCY RATE | DIRECT VACANCY RATE | YTD LEASING ACTIVITY | UNDER CONSTRUCTION | YTD CONSTRUCTION COMPLETIONS | YTD DIRECT NET ABSORPTION | YTD OVERALL NET ABSORPTION | OVERALL WTD. AVG ALL CLASSES GROSS RENTAL RATE* | DIRECT WTD. AVG. CLASS A GROSS RENTAL RATE* |
|---------------------|------------------|----------------------|---------------------|----------------------|--------------------|------------------------------|---------------------------|----------------------------|---|---|
| Fredericksburg City | 2,718,504 | 9.1% | 9.1% | 27,578 | 0 | 0 | 15,758 | 15,758 | \$20.25 | \$26.01 |
| Stafford | 3,388,539 | 13.9% | 13.1% | 12,160 | 46,000 | 12,177 | (6,836) | (4,055) | \$22.13 | \$25.43 |
| Spotsylvania | 2,110,331 | 18.7% | 18.7% | 44,616 | 0 | 10,800 | (60,798) | (60,798) | \$22.20 | \$27.80 |
| Caroline | 375,232 | 9.7% | 9.7% | 300 | 0 | 0 | 300 | 300 | \$14.89 | \$0.00 |
| King George | 688,846 | 17.4% | 17.4% | 6,585 | 0 | 0 | (34,885) | (26,641) | \$20.88 | \$0.00 |
| TOTALS | 9,281,452 | 13.7% | 13.4% | 91,239 | 46,000 | 22,977 | (86,461) | (75,436) | \$22.13 | \$26.25 |

RENTAL RATES REFLECT ASKING \$PSF/YEAR

MARKET HIGHLIGHTS

| Significant Q1 2013 Lease Transactions | SUBMARKET | TENANT | BUILDING CLASS | SQUARE FEET |
|--|----------------|-------------------------------------|-------------------------|----------------------|
| Lee's Hill II | Spotsylvania | Career Training Solutions | A | 25,451 |
| 10300 Spotsylvania Avenue* | Spotsylvania | Exelis, Inc. | A | 23,384 |
| Lee's Hill II | Spotsylvania | N/A | A | 14,228 |
| Cowan Plaza | Fredericksburg | N/A | B | 7,200 |
| Dahlgren Technology Center | King George | N/A | B | 6,585 |
| Breezewood Office Park | Spotsylvania | Tactical Engineering & Analysis Inc | B | 4,055 |
| Significant Q1 2013 Sale Transactions | SUBMARKET | BUYER | PURCHASE PRICE / \$PSF | SQUARE FEET |
| 608 Garrisonville Road | Stafford | MediCorp Properties Inc. | \$1,540,000 / \$367 psf | 4,200 |
| Significant Q1 2013 Construction Completions | SUBMARKET | MAJOR TENANT | COMPLETION DATE | BUILDING SQUARE FEET |
| 1245 Courthouse Road | Stafford | Stafford County | Q1 2013 | 12,177 |
| Courtland Medical Center | Spotsylvania | Preferred Pediatrics | Q1 2013 | 10,800 |
| Significant Projects Under Construction | SUBMARKET | MAJOR TENANT | COMPLETION DATE | BUILDING SQUARE FEET |
| 446-456 Garrisonville Rd | Stafford | N/A | Q3 2013 | 40,000 |
| 963 Garrisonville Road | Stafford | N/A | Q2 2013 | 6,000 |

* RENEWAL - NOT INCLUDED IN LEASING ACTIVITY STATISTICS